BUILDER

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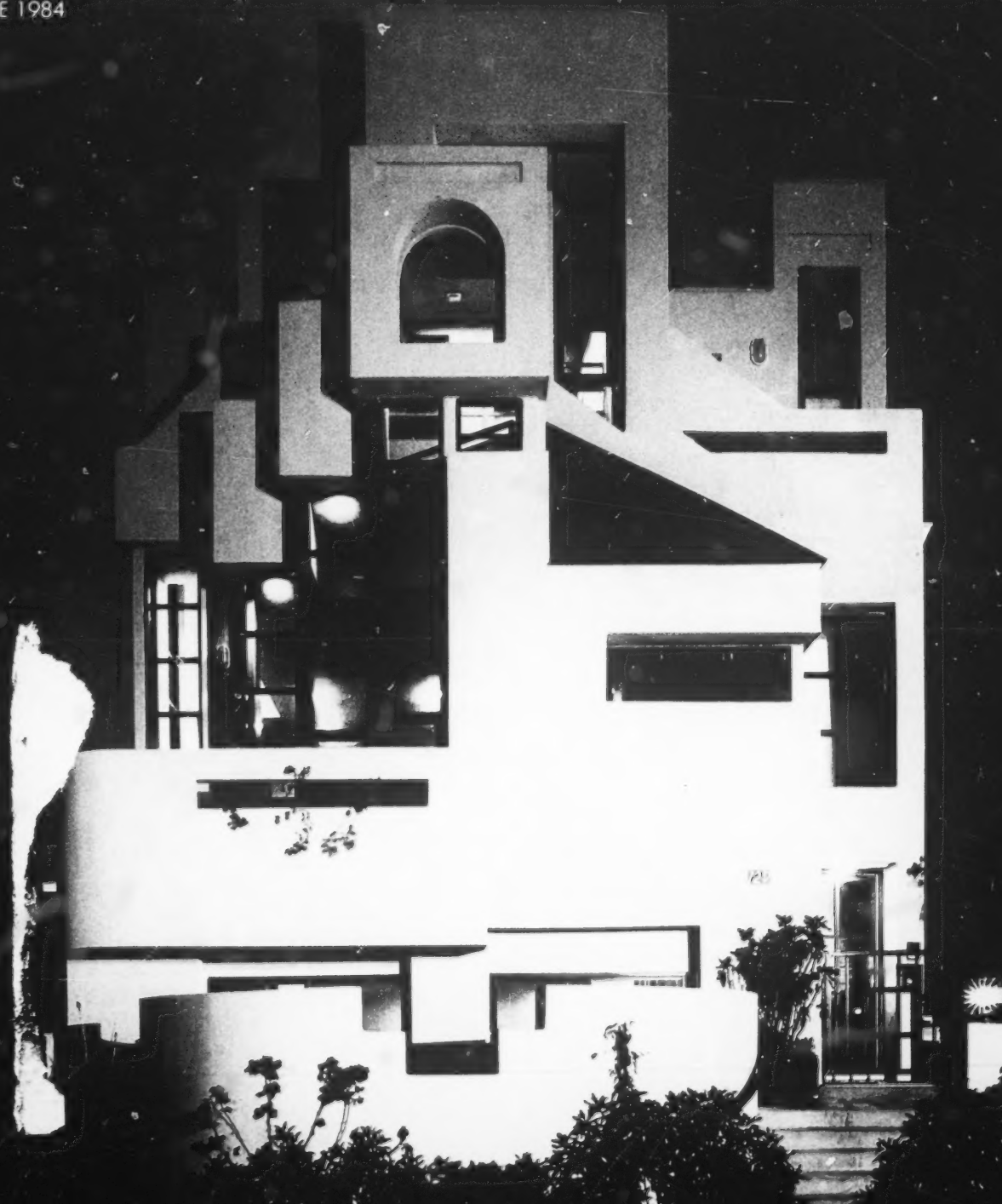
JUNE 1984



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82—BEST FROM THE WEST

As always the winners of the Gold Nugget design contest, a western regional awards program cosponsored by BUILDER and the Pacific Coast Builders Conference, represent a rich lode of design ideas. But this year the California look of the winners is tempered by other design influences.

(Cover: Parrott residence, Marina Del Rey, Calif. Photo: Copyright Glen Allison Photography 1982)

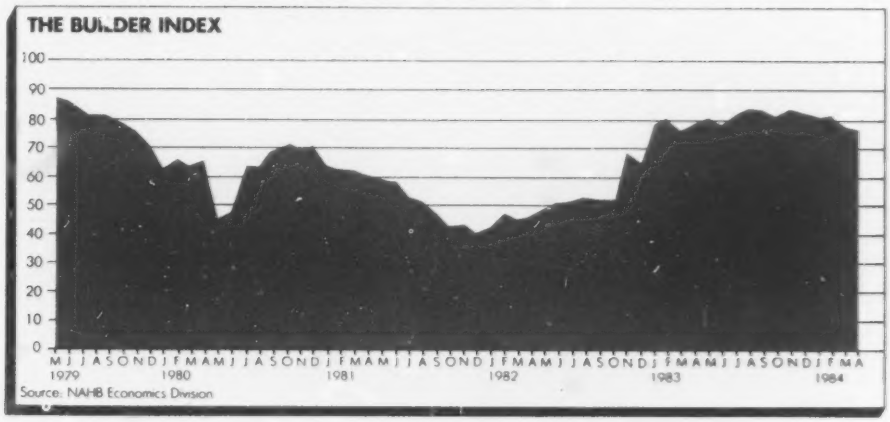
100—SMALL LESSONS

After much trial and error builders and architects have figured out how to make smaller houses live and look bigger.

110—PROJECT OF THE MONTH

Some builders worry about foreign competition. Not Seth Weinstein. He's importing high-tech, high-style manufactured housing from Sweden and using it to build first-rate projects like the Eagles of Sugarbush, a 16-unit time-share development in Vermont.

OUTLOOK
A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION


THE BUILDER INDEX
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1979
1980
1981
1982
1983
1984
Source: NAHB Economics Division

For the second month in a row the BUILDER Index declined—this time by just more than 1 point—which indicates housing activity should trail off by the end of the year.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Positive Signs

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

In spite of recent increases in interest rates, housing will do well this year. Starts should reach 1.84 million units, about an 8 percent increase from the 1.7 million starts last year.

However, housing during the second half of this year won't match its performance in the first half. Still, if interest rates don't go much higher, housing may have enough momentum to make 1985 a good year as well. Of course that depends in part on Congress and the Administration getting government out of the capital markets and easing the pressure on credit.

Let's recap where we stand now. Available data for the first quarter shows housing starts running at an annual rate of 1.95 million, or about 15 percent above the same period last year. Just two years ago the average rate for the first quarter was only 884,000 units.

Yes, it's true that in March starts dropped by a record 27 percent. But for the most part that should be considered an aberration, not the start of a downturn. Because of unseasonably good weather in February, starts reached an annual rate of more than 2.2 million. But in March cold weather in the Midwest and the Northeast and rain along the entire East Coast caused starts to plummet to a 1.6 million-unit annual rate.

Despite that steep drop in starts in March, some 1.7 million building permits were issued, as many as in almost any other month during the current recovery. This means housing starts should be strong in the next few months.

But the March decline in starts should not be ignored. Part of the decline, probably a third, can be attributed to the increase in interest rates. Builders are less willing to start new homes when future sales are uncertain.

New single-family home sales increased by 8 percent in February to the second highest level since September 1979 and were expected to remain strong in March as well as April. The April BUILDER poll survey showed a continuation of strong sales. Half the builders surveyed reported that sales of new single-family homes were good to excellent, compared with 44 percent in March, 46 percent in February and 28 percent in December.

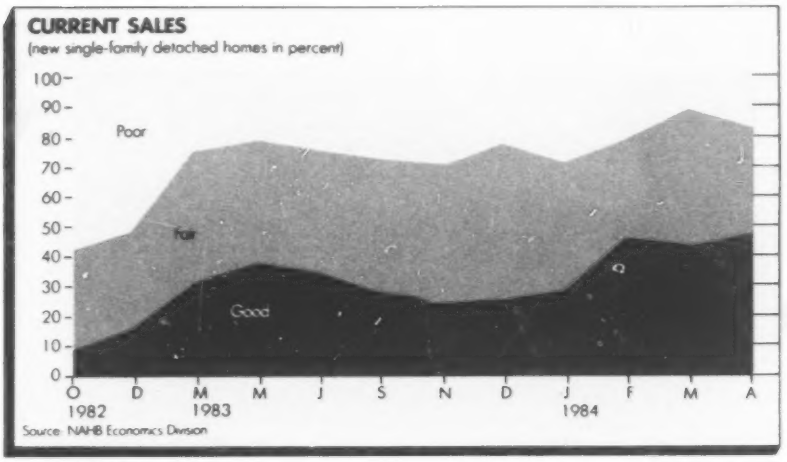
As sales took off during the first half of the year the unsold inventory of

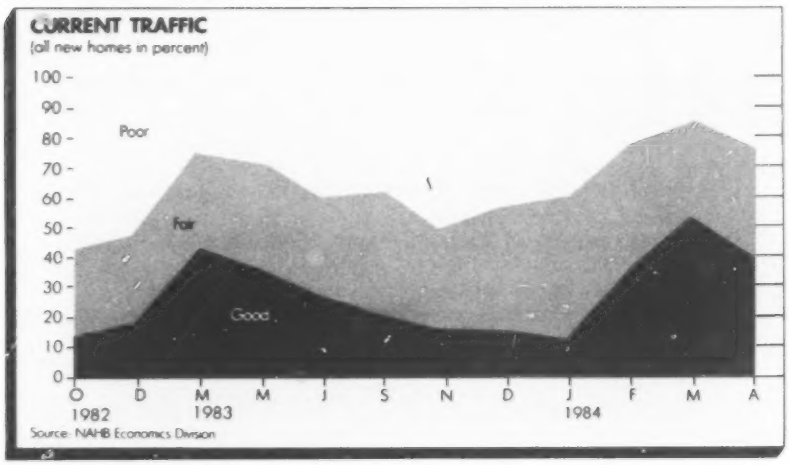
CONTINUED ON PAGE 13

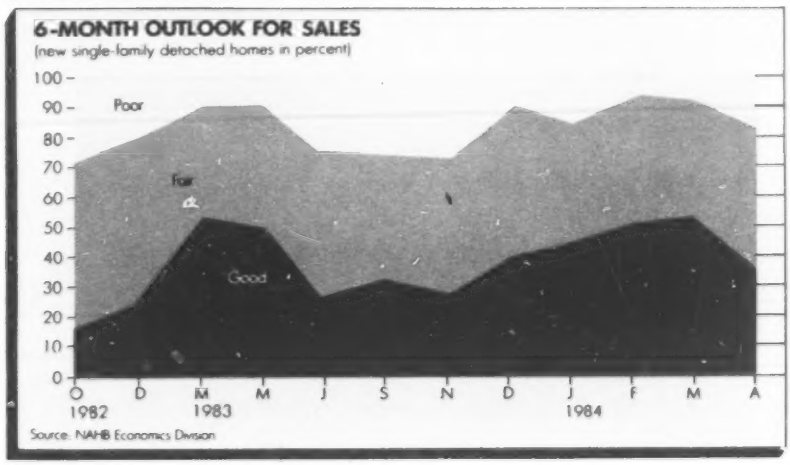
UNITS IN INVENTORY AT END OF RECOVERY PERIODS
(seasonally adjusted annual rate in thousands)

Month	1976	1977	1983	1984
January	312	354	257	304
February	308	357	261	301
March	320	359	262	
April	322	362	266	
May	331	364	273	
June	335	368	283	
July	338	375	289	
August	336	387	296	
September	340	388	299	
October	344	396	301	
November	349	400	307	
December	353	402	303	

OUTLOOK/BUILDER POLL







STILL BULLISH

Higher interest rates have lowered builders' expectations, but the April BUILDER poll still shows that builders are generally bullish. While sales of new single-family homes were still strong in April, expectations for the next six months turned down from March's peak.

Interest rates are the main concern. A Florida builder said, "The market is good and will remain so if interest rates do not price out the buyers." A builder from Akron, Ohio, said, "Worried about interest rate increases." There also is some concern among builders about availability of materials.

Nationwide about eight of 10 builders surveyed reported that new single-family home sales were fair to good and traffic of prospective buyers was rated as fair to good by three quarters.

There are significant regional differences in the rating of current sales as well as six-month sales expectations. In the Northeast, all the builders responding rated current sales as fair to good compared with 88 percent in the North Central, 80 percent in the West and 78 percent in the South. Builders in the West were the least optimistic—only 70 percent expected strong sales during the next six months—while those in the Northeast were most optimistic—83 percent expected strong sales.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the six-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

REAL ESTATE IS FLUSH
The enormous amount of money available will be the most important factor affecting the real estate market for the next few years, predicts Jay Kaplan, president of Consolidated Capital. Coming from many sources—banks, insurance companies, S&Ls, syndication firms, foreign investors and pension funds—the capital will contain "the seeds of our next over-building period," he said. Other Kaplan predictions: The real estate market will turn down in 1985, but there won't be a crash like in 1975; apartment rents will jump as much as 50% in the next two years due to renewed inflation and higher interest rates on single-family homes.

NONRES TO MAKE COMEBACK
Commercial and industrial building will make a comeback this year on the heels of the housing recovery, predicts George Christie, chief economist for the F.W. Dodge Division of McGraw-Hill Information Systems Co. But housing accounted for the near-record 23% gain in total construction contracting last year. The value of residential building contracts surged 57% in 1983; nonresidential building contracts gained a modest 4%; and public works and utility construction increased only 1%. Construction contract value jumped 32% in the Northeast, increased only 10% in the Midwest and gained 23% in the South and 28% in the West.

ARMs OVERTAKE MARKET
Adjustable rate mortgages accounted for more than 80% of all home loans made in the first quarter by savings institutions, according to a survey by the U.S. League of Savings Institutions. ARMs—in addition to plentiful mortgage money—helped savings institutions achieve a record first quarter mortgage lending volume. Loans totaled $34.7 billion, up 57% from the first quarter of 1983.

SYNDICATIONS THRIVE
Public real estate syndications raised a record $1.1 billion during the first quarter of this year, up 26% over the first quarter of 1983, according to Kenneth Leventhal & Company. "Although the industry should maintain strong money-raising momentum, its breakneck growth should slow somewhat this year with increased competition and changing tax laws," said company spokesperson Stephen Roulac.

LOS ANGELES IS NUMBER TWO
Los Angeles has overtaken Chicago and become the nation's second most populous city, reports the Census Bureau. (New York is still number one.) Between 1980 and 1982, the population of Los Angeles rose 1.8% to more than 3 million while Chicago's population declined slightly to just under 3 million. During the same period, Houston replaced Philadelphia as the fourth largest city. Houston's population grew by 8.2% to 1.73 million; Philadelphia's slipped by 1.5% to 1.67 million. Other cities in the big 10 are, in order: Detroit, Dallas, San Diego, Phoenix and San Antonio.

HOMEOWNERSHIP DECLINES
The homeownership rate declined again last year, but the downward trend has slowed, reports the Census Bureau. The rate fell from 65.6% in 1980 to 64.6% in 1983, with the biggest drop occurring in 1982. The decline each year since 1980 represents the first downward trend in homeownership since the agency began keeping quarterly records in 1962. However, the rates for each quarter in 1983 were no lower than the rate for the fourth quarter of 1982, indicating that the decline has leveled off.

CONTINUED FROM PAGE 11

new homes remained flat. Inventory is not the problem it has been in previous recoveries, when speculation brought inventory up sharply.

Existing homes sales are running about 18 to 20 percent ahead of last year and about 40 percent ahead of 1982. That's not bad considering the level of interest rates.

Another good sign is the drop in the number of unemployed construction workers: down to 776,000 in March from a peak of 1.2 million in October 1982. (Builders aren't reporting labor shortages, but in the most active markets, wages are increasing and subcontractors' bids are starting to increase.)

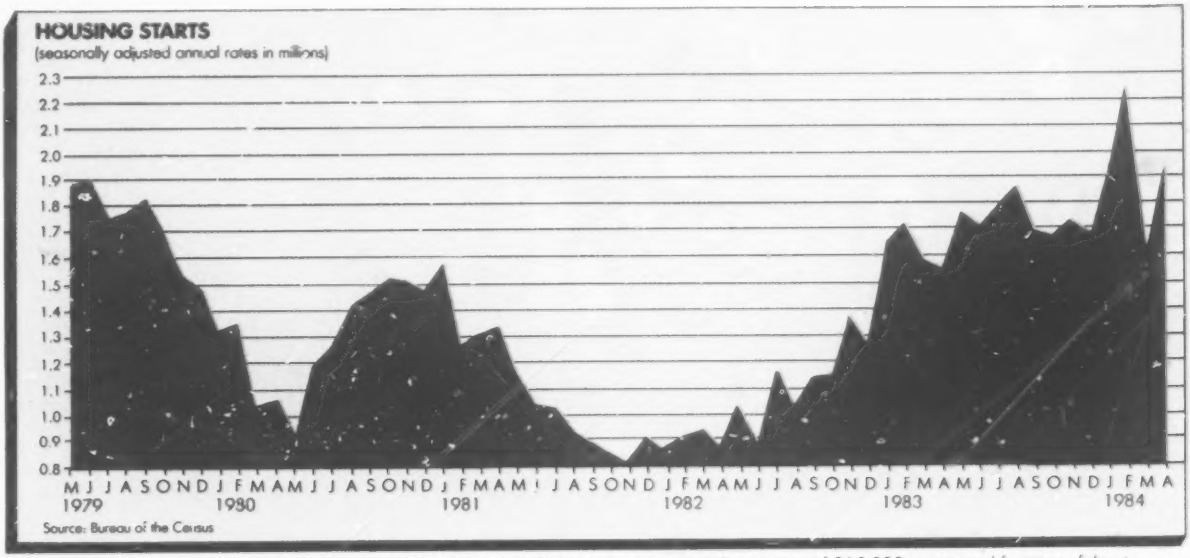
In a reversal of a trend that started in 1979, new home prices once again are increasing faster than inflation. In 1982 the median price of a new home increased by less than 1 percent, the smallest increase since 1963, when record-keeping started. During the 1970s, new home prices rose 162 percent compared with a 112 percent increase in the Consumer Price Index. However, through the first three years of this decade, the median sales price rose at an annual average rate of only 3.1 percent. The CPI increased 8.4 percent annually over the same period.

The April BUILDER poll showed that builders were less bullish than the month before, but expectations still are positive. This is particularly true in the single-family detached market, where 37 percent of the builder respondents expected sales to be good to excellent in the near future. Sales expectations for townhouses and condos were not as strong, but there are no signs of panic.

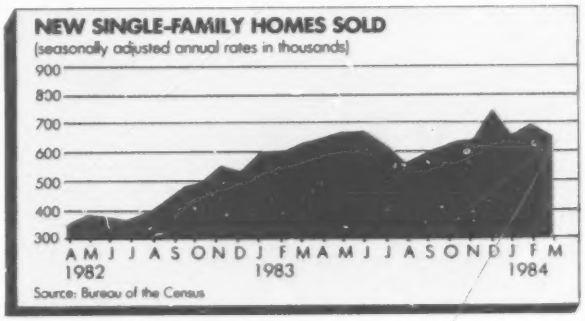
Traffic reported in the April poll continued to be high; in fact, higher than reported last spring, when the recovery seemed to be in full blossom.

In spite of housing's strength, interest rates are a concern. They are the lifeblood of the industry. Higher interest rates will affect housing sales. But with some luck, and a push from buyers (who are clearly there), we will get through 1984 in fairly good shape.

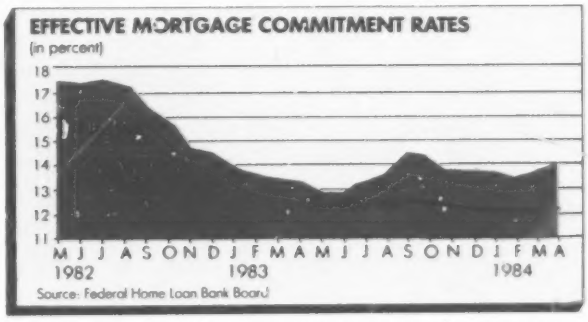
But be careful. Build in response to sales. Let's not end up with a glut of unsold units, like we did in 1979.



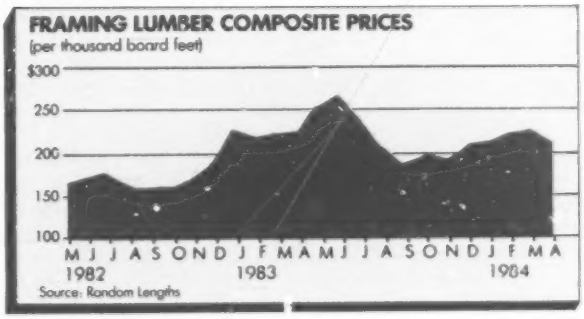
Starts jumped 19% in April to an annual rate of nearly 2 million. Multifamily starts, surging 41% to a rate of 815,000, accounted for most of the rise. Good weather and fear of rising interest rates contributed to the fast pace. April starts were 27% higher than a year earlier.



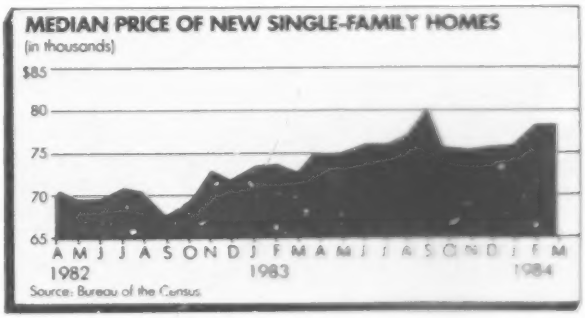
Sales declined by 5% in March to an annual rate of 666,000 from a downwardly revised February rate of 700,000. The March sales rate was still up 9% from a year earlier.



Mortgage rates are up. Commitment rates on long-term, fixed-rate mortgages jumped 26 basis points in April to 14.11% while uncapped adjustable rates climbed 19 basis points to 12.42%.



Lumber prices dropped by 7% in April to $217 per thousand board feet. It was the first decline in five months. The April price was 5% lower than a year earlier.



The median price remained unchanged in March from the revised February price of $78,700. The March price was 8.8% higher than a year earlier.

NEWS

ECONOMY

RISING INTEREST RATES SHADOW 1985

The three key questions on the minds of everyone in the housing industry are: Which way will interest rates go? When? And how much?

Despite economists' disclaimers that forecasting interest rates is as precise as predicting the weather, there is almost universal agreement that the answers are, respectively, up, this summer and by 50 to 100 basis points.

The general scenario calls for rising rates to level off in the fall then rise again after the Presidential election and keep rising through 1985.

Specifically, the NAHB forecast shows a prime rate of 12.5 percent by the end of this year and 13.75 percent by the end of 1985. Rates for 30-year fixed-rate mortgages will be 14.6 percent at the end of this year, then rise to 15.75 percent a year later.

David M. Jones, senior vice president and economist with Aubrey G. Lanston & Co., New York, sees rates rising faster but falling sooner. He forecasts a prime of 13 percent somewhere between June and September. Rates will then fall back to 12 percent by the end of the year, he predicted.

"That kind of rate will cool housing, if not by the fourth quarter, then by the first quarter of next year," he said, adding that he didn't see "a relentless, hopeless, inevitable rate climb." In fact, by next March he expects an 11 percent prime and 13 to 13½ percent mortgage rate.

The crystal ball at the Federal National Mortgage Association (Fannie Mae) conjures up stable rates for the remainder of this year. Timothy Howard, chief economist for Fannie Mae, noted that "interest rates are up an unprecedented amount for this time in a recovery," and he sees them rising even more—by as much as two points—next year.

The underlying reason for the gloomy forecasts is the looming clash between the federal deficit and the Federal Reserve Board's goal of preventing a resurgence of inflation.

"If the Federal Reserve Board were to try to limit rising interest rates now by increasing supplies of money and credit at an excessive pace, then the rise in inflation and later in interest rates would take an even larger toll," claimed Lyle Gramley, a member of the Board of Governors of the Federal Reserve Board.

Regardless of how and why interest rates rise, the important issue for home builders is how deeply rising rates will affect them.

"If conventional mortgage rates go above 14 percent and FHA above 13½ percent, it will shut down our sales considerably," predicted Bob Donaldson, financial manager for John Crosland Company, a Charlotte, N.C., builder with 1,000 starts last year.

"We'll suffer," confessed Gerald Strug, president of Gerald Builders of New Orleans, a company that built 50 houses last year. "If rates go up we'll be out of business."

Looking at the industry as a whole, economists and analysts did not think the effect would be severe. "It's not going to be as bad as 1980 to 1982," Michael Sumichrast, NAHB's chief economist, told an April NAHB conference.

So far, the gradual interest rate increases of the first quarter haven't hurt at all. Sales were solid and starts were running 27 percent higher than the first quarter of 1983.

One reason was a buying spree triggered by those who feared interest rates would go up even more. These consumers tended to be young, first-time buyers. "To some extent, this is borrowing from next year's demand," pointed out Kenneth Rosen, chairman of the Center for Real Estate and Urban Economics at the University of California at Berkeley.

Illustration: Robert A. Boothe

Housing also has been somewhat insulated from interest rate rises because mortgage rates haven't moved in lock step with the prime rate. Spreads between the two have been bigger and more varied than usual, with mortgage rates not rising as fast.

One explanation is that there's been an extraordinary amount of mortgage money available.

"Lenders [savings and loan institutions] had $107 billion in net new deposits plus interest credited in 1983—up from $35 billion in 1982," Rosen said.

Large purchases by institutional buyers in the secondary market also have been keeping fixed-rate mortgages from going up much. And builder bonds have helped increase the amount of money available for housing.

But "this ability for the housing market to cushion itself is over," confessed Fannie Mae's Howard, explaining that the return to investors on mortgage-related investments is dependent on interest rate stability.

While investors may ease out of the mortgage market, savings and loan funds may also taper off. The mortgage kitty was unusually large in 1983 because of a one-time recouping of funds lost to money markets—some $42 billion—and broker deposits—some $5.2 billion—which since have been cut off.

"As interest rates go up, initial rates on ARMs will increase, too, so ARMs won't be a panacea," commented Joseph Hu, vice president and economist with Salomon Bros., a New York City investment firm.

This could have a direct effect on builders because the initial year discount functioned as a buy-down. In other words, many builders found that the ARM rate obviated the need to buy down their buyers' mortgages. But, as the initial rates rise, builders may, once again, have to offer buy-downs.

U.S. Home Corporation, Houston, already is preparing for a down cycle.

"We're reacting conservatively," admitted Isaac Heimbinder, senior vice president and chief financial officer of U.S. Home. "We're better prepared for a downturn than an upturn. We haven't added people, we're not building speculatively, and we're not taking long, aggressive positions with respect to land and development."

From his perspective, the greatest danger to home builders lies not so much in higher rates as unstable rates.

Bob Donaldson noted that the Crosland Company had healthy backlogs of sales in both the first-time and move-up markets so was set for this year. The company will enter a new market in Myrtle Beach, N.C., next year.

"Those are retirement homes and interest rates are less of a concern in that market," he said.

Arthur Rutenberg, president of Arthur Rutenberg Corporation, Clearwater, Fla., a company that built 500 homes last year, noted that he has always tried to "bullet-proof" his company against interest rate concerns.

"We work in sections of the market that are least sensitive to rate increases—we avoid the first-time buyer with family. When interest rates are up, we become more aggressive on price. We make less money but we try to hold volume."

Stan Ross, a partner with the Los Angeles-based accounting firm, Kenneth Leventhal & Company, has advice for builders who want to protect themselves in the soft, 1985 market.

Turn inventory on a higher velocity basis for the remainder of this year—even if it means lower margins.

Increase the number of presales.

Refinance longer-term properties this year.

Penelope Lemov, Business Editor

ECONOMY

ECONOMISTS EXPECT 1985 HOUSING DOWNTURN

The second half of 1984 will be healthy for housing but watch out for 1985.

That was the consensus of economists and housing analysts at NAHB's semiannual residential construction forecast conference held in late April. They predicted housing would take a slight downturn in the fourth quarter of 1984 then the dive would steepen as 1985 progressed.

"Now's the time to take advantage of what you have, because if you haven't sold your houses by election time, you may not sell them. I wouldn't make exciting plans for 1985, either," warned Kenneth Rosen of the University of California at Berkeley.

Dean Crist, research economist for NAHB, was equally gloomy. He predicted that prices would rise, personal income slow down and unemployment pick up and reach 8 percent in 1985.

Lyle Gramley, a member of the Federal Reserve System Board of Governors, addresses NAHB's Economic Forecast meeting.

"Housing will be squeezed," he told the conference.

While Crist expected total housing starts this year to be 1.82 million, up 7 percent over 1983, he predicted 1985 starts would be 1.52 million, with the annual rate running at only 1.3 million by the fourth quarter of 1985.

According to statistics Crist presented at the conference, single-family starts would fall off 15.5 percent in 1985, after being up 12 percent in 1984. Multifamily starts, which were 635,500 in 1983, should slip to 625,100 in 1984 and to 511,700 in 1985, a drop of 18 percent.

The NAHB forecast calls for the market to be weakest in 1985 in the North Central region. The western markets also would suffer sharp declines; the drop in the Northeast and the South would be less severe.

Mobile homes, which Crist posted

at a healthy 289,400 shipments in 1983, were predicted to reach 330,200 in 1984 and dip to 298,900 in 1985.

Existing home sales will hold up this year, Kenneth Kerin, vice president, economics and research, National Association of Realtors, reported to the conference. Nearly 3 million existing houses sold in 1983, a giant step over 1982's 2 million. Sales this year, he predicted, would be a respectable 2.5 million but 1985 would be a poor year.

"I see 1986 as the year of improvement," he said.

The main factor behind the overall gloomy forecast—and Topic A on every speaker's list—was the huge budget deficit. The economists claimed the deficit not only affected interest rates (see previous story) but was just too big for the economy to handle.

"The deficit this year will be $193 billion," predicted Lyle Gramley, a member of the Federal Reserve System Board of Governors, pointing out that that was 5¼ percent to 5½ percent of the gross national product.

"Political negotiations over a down payment on the deficit are serious but the magnitude being discussed for the near term is small in relation to the size of the problem," he continued. "A 25 percent to 30 percent reduction in 1985 is less than 1 percent GNP."

But, Gramley emphasized, a down payment is needed urgently—more as an act of good faith than as a remedy.

"Don't expect a dramatic change until larger steps are taken," he told the conference.

Several economists predicted when those steps would occur.

"The problem won't be solved right now," suggested George Perry, senior fellow at the Washington, D.C.-based Brookings Institution. "1985 is the year when serious reduction of the deficit will be a number one priority, and it may mean serious tax reform."

Timothy Howard, vice president and chief economist at the Federal National Mortgage Association, was even more specific. He saw the critical period—"a window will open"—to make structural changes in the budget as being between January and mid-1985.

Part of the political problem in reducing the deficit, Howard pointed out, is that the public believes the deficit can be cut with defense cuts and elimination of waste and fraud, but he said those moves would hardly make a dent.

The direction in which the Administration and Congress is heading in order to solve the deficit problem might not be good for the real estate and home building industry, Kerin noted.

"There's been a change in attitude toward housing by this Administration. Housing is no longer a favored product or a priority.

"The housing/real estate industry is being asked to pay a high share of the deficit down payment with depreciation changes and possible changes in the tax code that would eliminate mortgage deductions."

On a more positive note, the economists and analysts agreed that inflation was under control for now. A critical issue in 1985, as Gramley saw it, was whether the economy could avoid the inflation treadmill. From 1960 through 1980 each business cycle has had an inflation cycle higher than the previous one, he explained, noting that "monetary policy must make sure that that doesn't happen and, so far, monetary aggregates are within targets."

Penelope Lemov

HOUSING STARTS
(in thousands)

Region	1983	1984 forecast	1985 forecast
U.S. total	1,703	1,821	1,523
Single-family	1,067	1,196	1,011
Multifamily	636	625	512
Northeast	168	226	205
Single-family	123	166	144
Multifamily	45	60	61
North Central	218	208	128
Single-family	154	157	91
Multifamily	64	51	37
South	935	983	917
Single-family	557	636	620
Multifamily	378	347	297
West	382	405	272
Single-family	234	238	156
Multifamily	148	167	116
Mobile homes	289	330	299

Source: Census Bureau, NAHB Forecasting Service

DESIGN

LAKE FAIRWAYS SCORES WITH SMART LANDSCAPING

Four years ago Indian Pines was a small mobile home park stuck in the West Florida swamps. Without water or sewer service, its only improvement was a funky wigwam stationed out front.

Today, the pines remain. But that's about all Lake Fairways—an adult community on 300 manicured acres—and its predecessor on the Fort Myers, Fla., site have in common.

Now, an 18-hole golf course and 17,000-square-foot clubhouse are framed by nearly 30 acres of man-made lakes. Almost half the community's 955 manufactured houses have been sold. Another 200 sites are under construction. And plans are under way for expansion to an adjacent 360 acres.

The turnaround came when Getty Oil, already involved in the project through a subsidiary company, teamed with Lan Ron Builders, a Newport Beach, Calif., developer. Before sales started, $7.5 million was pumped into the project. Another $7.5 million is targeted for completion.

Key to the makeover is a revised

CONTINUED FROM PAGE 46

newsletter about activities at the site. Copies of advertisements were sent to the brokers so they could see what approach the developers were taking. Every time a unit sold, the brokers were sent a letter indicating when the sale took place and for how much.

"These efforts reinforced the fact that Beechwood is a successful, viable development in the community," Lamondin noted.

Marketing Directors also restaffed—"Local people have a hard time closing a sale when they're social friends of the buyers," Lamondin explained—and retrained the sales personnel and moved the sales office. It had been located in the elegant hardwood-paneled living room of the old mansion.

"It was such a glorious, elegant room that everything else paled in comparison," Lamondin explained. The new sales office was set up in one of the newly constructed units.

The bottom line suggests that the efforts to make real estate brokers think more positively about Beechwood were worthwhile. So far seven brokers have referred clients and sales are now at a healthy 25, with 19 units sold since the broker campaign began last fall.

Penelope Lemov

ECONOMY

PROPERTY INDEX GUIDES PENSION INVESTMENTS

Pension fund officers, an ultra-conservative group when it comes to investment decisions, were beginning to see the light in the late 1970s. At that time real estate investments looked like appropriate additions to their portfolios.

But there was a glitch. While these officers sensed that real estate was a stable, profitable investment, they had no proof, no benchmark. Housing starts weren't a relevant measure, nor was the performance of real estate or home building stocks.

So the FRC Property Index was born last fall. Developed by the Frank Russell Company, Tacoma, Wash., a pension consulting firm, and the National Council of Real Estate Investment Fiduciaries (NCREIF), a 22-member group of lenders and investors such as Prudential Insurance Company, Equitable Life Assurance Society and Bank of America, it measures the performance of institutionally owned real estate.

1983 FRC PROPERTY INDEX
(9 months)

Geographic rate of return	Percent
All regions	7.6%
East	10.1
Midwest	6.2
South	6.3
West	7.7
Property type rate of return	**Percent**
All properties	7.6%
Apartments	9.8
Retail	9.1
Hotels	8.9
Industrial	6.9
Office	7.2

Source: National Council of Real Estate Investment Fiduciaries and the Frank Russell Company

Although there is no cause and effect link between the index and institutional investments in real estate, there has been a substantial increase in the percent of pension funds invested in real estate in the 1980s. Many pension fund managers have used index data as part of a presentation to corporate boards about pension fund allocations. The index also is used by attorneys, accountants and real estate appraisers, a spokesperson for the index reported.

The index is based on real estate that falls into five property categories: office buildings, shopping centers, industrial buildings, apartment houses and hotels. In all, 854 properties valued at $5.7 million in September 1983 are included.

The properties are ones that NCREIF members bought for cash, so that leverage is not a factor and such features of real estate deals as tax benefits, mortgage rates and joint ventures are not figured in.

"The index looks at real estate return, not the ownership return," noted Richard Raybin, treasurer of Rosenberg Real Estate Equity Fund of San Francisco and NCREIF chairman who spent five years helping to develop the index.

Data for the quarterly index is provided by the institutions owning the properties. Every quarter, the institutions report market value, capital improvement and current income of the property to the Frank Russell Company. FRC, in turn, treats the data confidentially but uses it to generate the index that tracks total return, income and appreciation.

The index also has subindices that can look at geographical and property types. For instance, by the end of the third quarter of 1983 (the most recent period for which the index has data), apartments, shopping centers and hotels were exceeding the index's total rate of return while office and industrial buildings were underperforming. Geographically, properties in the East were enjoying the highest rate of return, followed by the West and a weak South and Midwest.

Overall, for the nine months ending on September 30, the index increased 7.6 percent, an improvement over the 6.1 percent for the same period the previous year.

"The index shows that real estate does provide a hedge against inflation, which is the key thing institutional investors are looking for," Raybin claimed.

The index is available on a subscription basis through NCREIF, 55 East 52nd Street, New York, N.Y. 10055.

Penelope Lemov

MARKETING

LAKE PINELOCH HAS REASON TO CELEBRATE

Lake Pineloch Village had several things going against it.

Where the going price for Orlando condos was $60,000 to $80,000, the two and three-bedroom, 1,300 to 1,850-square-foot units in this 330-unit, 29-acre, infill project were priced

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heat gain from the windows by 85 percent, Miller said.

"The windows are the most efficient idea we've come up with," Miller said. "They are simple and can be used for retrofits or new homes very inexpensively."

Other solar features include a passive solar water heater placed in the attic and exposed to the sun through a skylight. There is also a vestibule to insulate the home from hot or cold air when the door is opened.

Miller said the home is operating as planned. In a state where solar energy is already popular, the Arizona Solar Energy Commission has held a seminar at the house to show other builders what can be done with the sun.

Andre F. Shashaty, a free-lance writer with expertise in housing

ECONOMY

ECONOMISTS PICK THE HOT SPOTS FOR 1984

Dallas-Fort Worth is number one. It will be the hottest home building market in the country in 1984, according to the April NAHB Quarterly Metropolitan Housing Starts Forecast compiled by NAHB's Economics Division using Census Bureau data. Housing starts in 97 metro areas are the raw data for the forecast.

Houses are being built in Dallas at an annual rate of 84,700 starts, the forecasters' data detailed. That's a decline of nearly 25 percent for Big D, but still enough to keep the city on top.

Houston is in second place with 45,800 starts predicted for 1984. A healthy number but, nonetheless, a 20 percent decline from 1983's starts which were a 13.6 percent drop from 1982 when Houston was on top with 66,970 starts.

As a whole, the top 20 housing markets in the country, as measured by starts, should be off last year's total by 8.1 percent. The top 20 cities will account for an estimated 538,031 units in 1984, down from 582,755 in 1983, a 57 percent share of the 97-metro-area market. While the single-family sector will not decline, multifamily starts will be off by 16 percent.

TOP 20 HOUSING STARTS BY METROPOLITAN AREA FOR 1984

SMSA	1984	Percent change 1983-84
1. Dallas-Fort Worth	84,700	−24.6%
2. Houston	45,800	−20.8
3. Atlanta	45,425	1.9
4. Phoenix	36,000	−20.0
5. Washington, D.C.	33,500	5.1
6. Los Angeles-Long Beach	25,000	0
7. West Palm Beach	24,300	33.6
8. Riverside-San Bernadino	24,000	1.7
9. Tampa-St. Petersburg	22,200	−14.0
10. Chicago	20,500	−5.1
11. Denver	20,000	−34.9
12. San Diego	20,000	0.8
13. Orlando	19,870	−2.3
14. Philadelphia	18,778	23.6
15. San Antonio	18,533	−11.3
16. Minneapolis-St. Paul	17,400	8.8
17. New York	16,645	1.2
18. Fort Lauderdale	16,050	33.5
19. Baltimore	14,980	−5.4
20. Miami	14,350	17.9

Source: Bureau of the Census; NAHB Forecasting Service; compiled by NAHB Economics Division

That such cities as Atlanta, Phoenix and Washington, D.C., also head the list should come as no surprise. They're where the action has been and is, but not necessarily where it will be two or three years from now.

"The problem with a good market is that everyone finds out about it after it's a good market. Then too many builders come in and overbuild and it's no longer a good market," observed Alfred Gobar, a Brea, Calif., economist who specializes in analysis of the real estate industry.

Today's hot market also can cool off for other reasons. If the city is dominated by an industry that's economically out of favor, housing starts can decline quickly.

"The booms of the 70s are the busts of the 80s," suggested Kenneth T. Rosen, professor of economics, University of California at Berkeley. Cases in point will be Houston, Tulsa and Monroe and Lafayette, La., which, Rosen believes, will be adversely affected by the decline of the energy industry.

Both Rosen and Gobar, using slightly different methods, are ready to predict where the hot spots of the next few years will be. Some markets already are in the top 20; others will be newcomers to that list.

Rosen, who charts the robustness of a housing market by looking at employment growth, sees California as a leading housing market for the next few years.

"They gained 400,000 jobs last year and that's reflected in housing. During the first three months of 1984, starts were at an annual rate of 220,000 where they were 140,000 a year ago," Rosen explained. The specific California markets he has in mind as hot spots are San Diego, San Jose and Anaheim.

Florida markets will stay on top of the housing start lists, he predicted. The state had a quarter million job gain—40 percent of all employment growth in the country, Rosen noted.

Rosen's other picks for top markets of the future are Long Island, N.Y., New York-New Jersey, Atlanta, Phoenix and Minneapolis-St. Paul.

Markets that won't make the top 10 but should enjoy strong growth include Elkhart, Ind., Connecticut, Virginia and Massachusetts.

At the bottom of Rosen's list is Wyoming—"The number one loser in terms of employment growth"—and West Virginia, where, Rosen suggested, it would be unwise "to move there to build."

Gobar depends on a sophisticated computer-based econometric model he designed to make his hot spot predictions.

His favorite pick for a market that will be in the top 10 for the next five to 10 years is Tampa-St. Petersburg, Fla. "Their economy is balanced now. It's no longer just a retirement community. Manufacturing is coming in. Housing costs are fairly low so builders don't have the difficulty of having to

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build cheap housing to support growth," Gobar commented.

Casting his eye north, Gobar also likes Boston. "The high price of housing in California is retarding growth of the high-tech industry there. More high-tech growth is occurring in Boston because the Massachusetts Institute of Technology is there," Gobar observed.

Also in the north, Gobar, like Rosen, predicted good times ahead for New Jersey, in particular those communities within commuting distance of New York City. Gobar thought there were especially good opportunities for builders of higher quality houses.

Raleigh, Greensboro and Columbia in the Carolinas should also enjoy the housing start spotlight. Gobar ticked off his reasons as strong local economies, pro-business environments and a lot of universities and colleges. The latter provide the employees needed to create home buyers.

The Norfolk-Newport News, Va., area is Gobar's sleeper for an up and coming hot market. "They're developing economically and getting away from dependency on the Navy. Coal loading facilities have been built there and that's giving their economy a shot in the arm."

Penelope Lemov

FINANCE

S&Ls FEEL THREATENED

The savings industry is starting to get touchy about efforts by builders and Realtors to provide more of their own financing.

S&L leaders are upset by the growing use of builder bonds, the establishment of financing subsidiaries by big builders and Realtors and most recently by discussions between the Federal National Mortgage Association (Fannie Mae) and the National Association of Realtors (NAR) to provide more direct financing to Realtors.

These efforts "leave no place for S&Ls," said James Kendall, spokesperson for the U.S. League of Savings Institutions. Other S&L executives have warned that if builders and Realtors persist in entering the lending business, lenders may retaliate.

For example, at the recent BUILDER-sponsored housing round table in Dallas (see May BUILDER), the subject of builder bonds provoked disagreement between builders and lenders.

"If that's the way you (builders) want to finance homes," said Lloyd Bowles, chairman of the board and chief executive officer of Dallas Federal Savings and Loan, "then S&Ls should think about getting into other lending areas—which we're doing."

In response, Paul Seegers, vice chairman and co-chief executive officer of Centex Corporation, Dallas, said that by continuing to sell mortgage-backed bonds his company can lower mortgage rates and pass the savings on to home buyers.

"If we can provide 30-year, fixed-rate mortgages (with builder bonds) we need to do it," he told Bowles.

In another instance, league president William O'Connell warned other lenders that they must be wary of programs claiming greater efficiency for mortgage markets, when that really means supplanting savings institutions as the nation's primary source of mortgage money.

Savings institutions must be aware of competition, he continued, whether it's a mortgage securitization program that "creates extraordinary dependence on national investors" or a computerized linkup of Realtors or builders that offers direct financing to home buyers.

Dependence on national investors would erode the role of local institutions in home finance, O'Connell warned. (He did not mention that S&Ls and savings banks sold 39 percent of the residential mortgages they closed last year in the secondary market, nor that many other loans are structured so they can be sold in the secondary market.)

"Most of the large, franchised Realtors are ready, willing and able to finance the purchases they arrange through their captive financial institutions or through a conduit to Wall Street," O'Connell said.

"If it's reasonable for real estate brokers to get into the business of financing home buyers, I think it is perfectly reasonable for savings institutions to consider getting into the real estate brokerage business."

As for S&L fears that NAR and Fannie Mae will forge a deal to bypass local lenders, NAR says there is nothing like that in the works.

"There are no ongoing discussions between NAR and Fannie Mae on ways for Fannie Mae to enter the primary market as an originating lender," said Steve Candland, NAR's vice president of mortgage finance.

"We were just talking with Fannie Mae in general terms," Candland said, adding that Fannie Mae needs local lenders to originate and service mortgages. "The league got the wrong idea of what we were talking about."

Carol Anderson

GOVERNMENT

REAGAN WILL KEEP HOME MORTGAGE DEDUCTION

The home mortgage interest deduction will be preserved even if the income tax system is changed, President Reagan promised in a May 10 speech before the National Association of Realtors (NAR) in Washington, D.C.

The President noted that tax reform would be a priority in his next Administration but, he added, "In case there's still any doubt, I want you to know we will preserve that part of the American dream which the home mortgage interest deduction symbolizes."

Doubts arose when the President told an April 12 round table on housing sponsored by BUILDER (see May BUILDER) that such a change in policy was possible. In answer to a question from NAR executive vice president and chief economist Jack Carlson about rumors that Reagan's staff was considering doing away with tax deductions for mortgage payments as part of a tax reform package, the President said, "In the area of simplifying the tax system, I have told them to look at everything. Now, would there be any harm . . . if we could have a tax simplification

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NAHB REPORT

PRESIDENT'S MESSAGE

POLITICS AND THE AMERICAN DREAM

With the 1984 elections coming up, the need for personal action on the political front becomes a matter of growing urgency. We have some important things to do and some important choices to make between now and November 6.

For most of us that won't be easy, because with housing activity so strong now and the future more uncertain, attention must be focused on business.

But we must give an effective accounting of our views to the candidates, to the platform writers and, finally, at the voting booths. Housing's well-being will depend on whether we get our views across at the right time to the right politicians on the right issues. The life and death issues for our industry are: budget deficit; high interest rates; regulatory burdens; and the threatened opportunity of homeownership.

Nearly every problem we face in home building is rooted in the actions of politicians. So participating in the political process this summer and fall is crucial. Participating means communicating and supporting candidates for office at all levels of government; and of course it means voting.

Our association is getting ready to launch a major campaign to preserve the American dream of homeownership. We expect to build a platform for housing among concerned business groups. We will send builder delegates to the Republican and Democratic national conventions. We will expand our political action war chests through BUILD-PAC.

Rising infrastructure and financing costs as well as inflation, stop-and-go monetary policies and excessive regulation have pushed up the cost of owning a home beyond the reach of millions of American families. The erosion of the dream of homeownership must be stopped at the polls if it is to be stopped at all.

Reta D. Herder

HBA LEADERS RANK DEFICIT AS NUMBER ONE PROBLEM

A national survey of the leaders of state and local home builder associations affiliated with NAHB found that 60 percent of the respondents think that mortgage interest rates will remain in the 12½ percent to 13½ percent range this year. Another 20 percent see rates declining slightly, while the remainder think rates will rise above their current level before the year is out. However, almost two-thirds of those who responded to the survey think large federal budget deficits eventually will push all interest rates higher.

Results of the survey, which was conducted during NAHB's grass-roots leadership meetings in February and March, show that most HBA leaders expect housing production and sales to drop 20 percent to 50 percent if the deficit remains at the $200 billion level. Despite these fears, more than half the respondents say that starts this year will exceed the 1.7 million units started last year.

When asked what action should be taken to reduce the deficit, about two-thirds said a combination of actions should be taken, including a reduction in the growth of entitlement programs, cuts in military spending and tax increases. Less than 25 percent favor a Constitutional amendment to balance the budget and only 11 percent favor a line-item veto for the President.

The level of concern among builders over the large budget deficit was best measured in how they ranked the importance of NAHB's legislative programs. Three-quarters ranked bipartisan efforts to reduce the deficit as the top legislative priority; reinstatement of tax-exempt revenue bonds for single-family housing ranked a distant second.

Less than 2 percent of the respondents

EFFECT OF PROPOSED BILL TO EXPAND POWERS OF S&Ls IN HOME BUILDING

Projection	Percentage of respondents
Major threat to builders	78.5%
Good for building industry	5.7
No effect on individual builders' operations	2.7
Effects unknown	13.1

ECONOMIC CLIMATE FOR 1984 STARTS AND SALES

(based on 1.7 million starts in 1983)

Projection	Percentage of respondents
More favorable than 1983	54.3%
Less favorable than 1983	3.5
The same as 1983	42.2

felt that maintaining the current rules permitting builders to issue home buyer bonds was important. In contrast, almost 70 percent regard bank reform legislation that would permit greater involvement of lenders in home building and land development as a major threat.

The survey, conducted at 16 grassroots leadership meetings, also asked for views on a number of local building industry problems and a range of NAHB activities.

Following is a summary of responses to some of the questions:

- Almost 90 percent of builders reported that costs of building materials, especially gypsum wallboard, are increasing. And more than half the builders are experiencing problems with shortages of materials.
- The most typical construction problems are processing delays and building codes. In land use and development, the problem areas are zoning ordinances, subdivision regulations, processing delays and utility installation.
- About 25 percent of NAHB members have computers. The computers most often are used for general ledger, job cost reporting, accounts payable, estimating, spread sheet calculations and scheduling.
- Of those surveyed, half rated press coverage and the public image of home building as excellent, one-third rated them good and 17 percent gave them a poor rating.

HBA BUILDS ENERGY INFORMATION CENTER

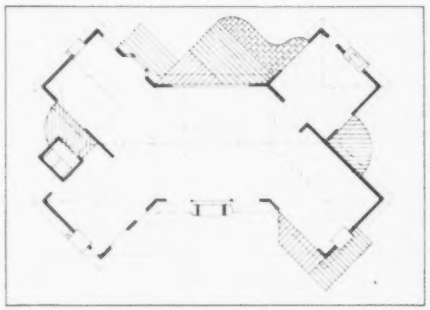
To help consumers better understand the value of energy-saving homes the Home Builders Association of Greater Columbia, S.C., has built a demonstration home in a Columbia shopping mall. The project, called the Energy Information Center, was initiated by the South Carolina Electric and Gas Co. (SCE&G) and represents an alliance of SCE&G, the HBA and manufacturers.

"For our part," said Earl McLeod, HBA executive officer, "we want to provide the home buyer with as much information as possible on energy conservation in new homes. In addition, we want to show in the cutaway house the costs of energy-saving materials and construction techniques in relation to energy savings.

All materials and labor for the house were donated. HBA members were asked to contribute either money ($200 minimum) or the equivalent in materials or labor. More than $5,000 was raised after the first announcement.

The home was built inside an old department store building in a shopping mall. Ceiling, floor and wall cutaways show construction, insulation and sealing options.

Each of the four 12-foot-square rooms in the house will be equipped with appliances provided by different manufacturers. The central display will be a showcase of the most modern energy-efficient appliances on the market. The manufacturers have agreed to pay rent for space in the center.



The Energy Information Center, a demonstration home built inside a shopping mall by the HBA of Greater Columbia, S.C., showcases energy-efficient products and construction methods.

Other features of the Energy Information Center include a room with computerized displays that show the amount of energy used by specific appliances in the home and the capability to give any utility customer a printout of his previous year's energy use and cost.

The center will be a permanent display, with 50,000 visitors expected annually, according to McLeod.

LOCALS AT WORK

- In keeping with the trend to reuse instead of raze old buildings, the York County, Pa., Builders Association has converted an unused school building into its headquarters. The HBA purchased the building for $40,050 in 1980, then remodeled it, creating its own offices as well as tenant space.

The York County, Pa., Builders Association now is headquartered in a school it remodeled.

At present there are three tenants, and the HBA has an office for the president, a board room, an all-purpose seminar room, a kitchen and a basement that eventually will be used for larger meetings and social functions. Linda A. Schiding, executive officer, said the building now is valued at approximately $200,000.

- The Home Builders and Contractors Association of Palm Beach County, Fla., has formed a legal affairs department with a full-time director. The department will monitor the impact of laws and regulations that are promulgated at the state and local levels. David Lloyd, HBA executive officer, said that the director will work closely with the HBA's full-time lobbyist to draft ordinances and to form coalitions with other